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QUESTIONS AND ANSWERS ABOUT PRESIDENT REAGAN'S
PROPOSED MORATORIUM ON FEDERALLY ASSISTED HOUSING

QUESTION: In view of the huge federal deficit, why can't we postpone adding additional assisted housing units for the next two years? Shouldn't assisted housing programs take their fair share of cuts in order to reduce federal deficits?

ANSWER: Federally assisted housing programs have already taken more than their fair share of budget cuts over the past four years. Since 1980 new budget authority for federally assisted housing programs has been cut by more than 60 percent or more than \$16 billion a year. The defense budget, however, has increased 129 percent since 1979 and the President is seeking another \$30 billion increase in defense spending in Fiscal Year 1986. The current level of funding for these programs already falls far short of keeping up with growing demand. A two-year moratorium will increase the gap between supply of affordable low- and moderate-income rental housing and the demand. This will result in higher rents in the rental market generally and will place an impossible burden on many low- and moderate-income households who already pay a disproportionate share of their total income for shelter. Construction costs continue to rise and housing that must eventually be provided will cost more to produce two years from now than it would now. In addition, shelter is one of life's most basic requirements and there are severe social consequences and costs when a substantial segment of our society is ill-housed or homeless.

QUESTION: Isn't there a less expensive way to provide decent housing for low- and moderate-income households?

ANSWER: No. As every homeowner knows, housing is expensive to build and maintain. Historically, the private sector has never met the housing needs of low- and moderate-income households. In our free enterprise system, business and industry, including the housing industry, make investment decisions based on economics with close attention to risk factors and prospects for return on investment. The economics of the marketplace simply do not justify investment in the construction of rental housing for low- and moderate-income households. For half a century there has been a federal commitment to the goal of decent housing and a suitable living environment for every American. This is why the current federally assisted housing programs and their predecessors were created. The direct subsidies they provide and the incentives contained in the federal tax code for investment in rental housing have always been and are still necessary. Without them, decent housing for low- and moderate-income households could not be built and maintained.

QUESTION: Wouldn't it be less costly simply to give low-income households certificates or housing vouchers and let them find suitable housing in the private market than it is to construct new rental housing for low- and moderate-income people?

ANSWER: It is true that helping low-income households overcome the affordability problem by providing them with Section 8 certificates or housing vouchers is less costly than subsidizing new construction or substantial rehabilitation of rental housing. However, in many communities, there is a severe shortage of rental housing, and vouchers or Section 8 certificates do not ensure that suitable housing can be secured. Certificates and vouchers cannot create housing that does not exist. In 1983 more than 60 percent of all multifamily housing starts occurred in the South where private developers perceive a rapidly growing market in which they can charge rent levels that will ensure profitability. At the same time, the North Central and Northeast regions of the country accounted for only 9 percent and 6 percent of all multifamily starts respectively. The demographics of rental housing indicate that a large segment of the low-income rental population lives in older sections of the country and do not have the income levels to create an effective demand for new construction. The Detroit metropolitan area, for example, had only 4,700 units of multifamily rental housing being built in 1983, although it had a vacancy rate of about 3 percent; Philadelphia had only 4,200 units being built and had a 4 percent vacancy rate. Federal housing programs must and do address both the problem of affordability and availability of rental housing for low- and moderate-income households. In communities where the housing supply is sufficient, vouchers and certificates are used effectively. In other areas with a shortage of rental housing, new construction and substantial rehabilitation programs must be used to address the problem of inadequate supply.

QUESTION: Hasn't the number of substandard housing units declined dramatically in recent years?

ANSWER: No. There is no continuing downward trend in housing deficiencies. The number of units with specific structural problems has shown ups and downs within a fairly narrow range between 1973 and 1981. However, the actual number of deficient units is greater today than in 1979. There are more than 10 million physically deficient or overcrowded units.

QUESTION: Housing construction, including the construction of multifamily rental housing, has experienced a boom in the last two years. Doesn't this make a moratorium on assisted housing programs for the next two years more acceptable.

ANSWER: No. Maintaining an adequate supply of decent housing for low- and moderate-income households requires a constant effort. While a large number of rental housing units were added to the inventory between 1970 and 1985, well over 40 percent of all rental units are still more than 35 years old and require substantial rehabilitation. While units are being added to the inventory, other units are dropping out of the rental housing inventory. Approximately 1.6 million units of rental housing built before 1964 and rented in 1970, for example, were not in the rental market in 1981. More recently, between 1970 and 1984, approximately one million units of rental housing were converted from rental apartments to condominiums. In both cases, many of the lost units housed the lower income segment of the rental housing



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market. Newer market-rate units coming into the inventory rent for substantially more than those removed from the inventory and this creates a declining supply of affordable units for poorer rental households. Furthermore, without active assisted housing programs, any rental housing built in the next two years would be available only at market rate and would not serve the needs of low- and moderate-income households.

